

MONTICELLO COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Monticello Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|--------------------|---------------------|
| Board of Education (Before September 2005 Election) | | |
| Lee Hein | President | 2006 |
| John Cook | Vice President | 2005 |
| Lisa Lubben | Board Member | 2006 |
| Jeff Monck | Board Member | 2005 |
| Jeff Hinrichs | Board Member | 2007 |
| Board of Education (After September 2005 Election) | | |
| Lee Hein | President | 2006 |
| John Cook | Vice President | 2008 |
| Lisa Lubben | Board Member | 2006 |
| Jeff Monck | Board Member | 2008 |
| Jeff Hinrichs | Board Member | 2007 |
| School Officials | | |
| Randy Achenbach | Superintendent | 2006 |
| Nancy Strang | District Secretary | 2006 |
| Connie Reyner | Comptroller | 2006 |
| Strittmatter Law Firm | Attorney | 2006 |

NOLTE, CORNMAN & JOHNSON P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Monticello Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Monticello Community School District, Monticello, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Monticello Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 2006 on our consideration of Monticello Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Monticello Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

October 18, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Monticello Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,694,281 in fiscal year 2005 to \$8,210,578 in fiscal year 2006, while General Fund expenditures increased from \$7,212,152 in fiscal 2005 to \$7,666,918 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$1,101,233 in fiscal 2005 to \$1,648,464 in fiscal 2006, a 49.69% increase from prior year.
- Overall, the District net assets in the governmental activities increased by \$1,104,527 and the business-type activities increased by \$3,273 respectively.
- The September 2005 Certified Enrollment count resulted in an increase of 2.8 students. Hopefully, this trend will continue in the future to help ensure the financial stability of the District.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Monticello Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Monticello Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Monticello Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Monticello Community School District Annual Financial Report

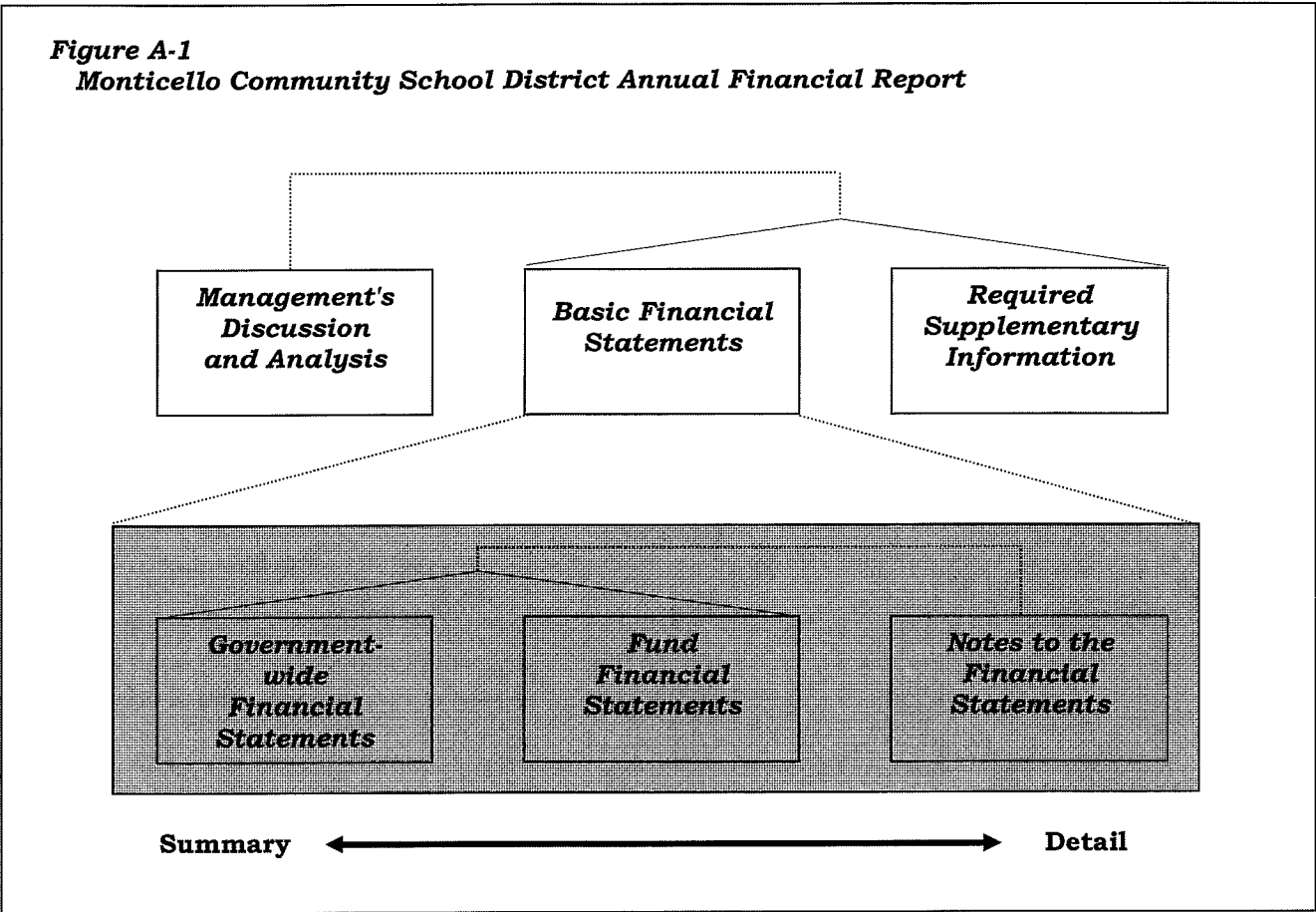


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

| | Government-wide Statements | Fund Statements | | |
|--|--|--|--|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Activities the district operates similar to private businesses, e.g., food service | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the School Accounts Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Agency fund.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Change |
|--|----------------------------|------------|-----------------------------|---------|--------------------------|------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-06 |
| Current and other assets | \$ 12,157,455 | 6,426,615 | 82,735 | 72,536 | 12,240,190 | 6,499,151 | 88.34% |
| Capital assets | 8,263,541 | 8,335,100 | 85,394 | 99,403 | 8,348,935 | 8,434,503 | -1.01% |
| Total assets | 20,420,996 | 14,761,715 | 168,129 | 171,939 | 20,589,125 | 14,933,654 | 37.87% |
| Long-term obligations | 11,308,060 | 6,363,703 | 0 | 0 | 11,308,060 | 6,363,703 | 77.70% |
| Other liabilities | 3,744,594 | 4,134,197 | 4,390 | 11,473 | 3,748,984 | 4,145,670 | -9.57% |
| Total liabilities | 15,052,654 | 10,497,900 | 4,390 | 11,473 | 15,057,044 | 10,509,373 | 43.27% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 3,061,764 | 2,572,486 | 85,394 | 99,403 | 3,147,158 | 2,671,889 | 17.79% |
| Restricted | 544,007 | 483,506 | 0 | 0 | 544,007 | 483,506 | 12.51% |
| Unrestricted | 1,762,571 | 1,207,823 | 78,345 | 61,063 | 1,840,916 | 1,268,886 | 45.08% |
| Total net assets | \$ 5,368,342 | 4,263,815 | 163,739 | 160,466 | 5,532,081 | 4,424,281 | 25.04% |

The District's combined net assets increased by \$1,107,800, or 25.04%, over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased by \$60,501, or 12.51% over the prior year. The increase was primarily the result of the increase in the Special Revenue, Management Levy fund balance being more than enough to offset the decreases in the Special Revenue, Physical Plant and Equipment Levy fund balance and the other special revenues fund balances.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased by \$572,030, or 45.08%, over the prior year.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Change |
|---|----------------------------|-----------|-----------------------------|----------|--------------------------|-----------|-----------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-06 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 885,954 | 920,565 | 269,525 | 248,084 | 1,155,479 | 1,168,649 | -1.13% |
| Operating grants and contributions and restricted interest | 1,096,063 | 826,749 | 148,767 | 137,338 | 1,244,830 | 964,087 | 29.12% |
| General revenues: | | | | | | | |
| Property tax | 3,811,201 | 3,892,661 | 0 | 0 | 3,811,201 | 3,892,661 | -2.09% |
| Local option sales and service tax | 508,806 | 478,542 | 0 | 0 | 508,806 | 478,542 | 6.32% |
| Unrestricted state grants | 3,584,716 | 3,356,029 | 0 | 0 | 3,584,716 | 3,356,029 | 6.81% |
| Other | 318,067 | 52,608 | 3,898 | 2,733 | 321,965 | 55,341 | 481.78% |
| Total revenues | 10,204,807 | 9,527,154 | 422,190 | 388,155 | 10,626,997 | 9,915,309 | 7.18% |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instructional | 5,341,253 | 4,874,320 | 0 | 0 | 5,341,253 | 4,874,320 | 9.58% |
| Support services | 2,662,833 | 2,568,249 | 0 | 0 | 2,662,833 | 2,568,249 | 3.68% |
| Non-instructional programs | 0 | 0 | 418,917 | 402,428 | 418,917 | 402,428 | 4.10% |
| Other expenses | 1,096,194 | 1,054,346 | 0 | 0 | 1,096,194 | 1,054,346 | 3.97% |
| Total expenses | 9,100,280 | 8,496,915 | 418,917 | 402,428 | 9,519,197 | 8,899,343 | 6.97% |
| Change in net assets | 1,104,527 | 1,030,239 | 3,273 | (14,273) | 1,107,800 | 1,015,966 | 9.04% |
| Net assets beginning of year | 4,263,815 | 3,233,576 | 160,466 | 174,739 | 4,424,281 | 3,408,315 | 29.81% |
| Net assets end of year | \$ 5,368,342 | 4,263,815 | 163,739 | 160,466 | 5,532,081 | 4,424,281 | 25.04% |

Property tax and unrestricted state grants account for 72.47% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.08% of the revenue from business type activities.

The District's total revenues were approximately \$10.63 million of which \$10.20 million was for governmental activities and less than \$0.43 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 7.18% increase in revenues and a 6.97% increase in expenses. The increase in revenues was due to increased local option sales and service tax and unrestricted state grant revenues the District received during fiscal 2006. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$10,204,807 and expenses were \$9,100,280.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

| | Total Cost of Services | Net Cost of Services |
|------------------|---------------------------|-------------------------|
| Instruction | \$ 5,341,253 | 3,715,041 |
| Support services | 2,662,833 | 2,610,535 |
| Other expenses | 1,096,194 | 792,687 |
| Totals | <u>\$ 9,100,280</u> | <u>7,118,263</u> |

- The cost financed by users of the District's programs was \$885,954.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,096,063.
- The net cost of governmental activities was financed with \$3,811,201 in property tax, \$508,806 in local option sales and services tax, \$3,584,716 in unrestricted state grants and \$151,835 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$422,190 and expenses were \$418,917. The District's business-type activities include the School Nutrition Fund and School Accounts Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Monticello Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$8,359,602, above last year's ending fund balances of \$2,220,827.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in the tax levy, as well as, state grants and tuition revenues during the year, resulted in an increase in revenues. The increase in revenues was enough to offset the District's increase in expenditures ensuring the increase of the District's financial position.
- The increase in the tax levy for debt service allowed the Debt Service Fund to pay for a larger portion of the general obligation bond payments from local taxes rather than transferring monies from the Capital Projects Fund. This allowed the Capital Projects fund balance to increase from \$471,008 to \$706,374 during the year.
- The Special Revenue, Management Levy fund balance increased again in fiscal year 2006. Revenues increased during the year; however, revenues still exceeded expenditures allowing for the increase in fund balance from \$264,360 to \$409,636.
- The Special Revenue, Physical Plant and Equipment Levy fund balance decreased \$142,088 to an ending balance of \$76,321. This was the result of the final land payment and a new bus that was purchased during the year.

Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$155,109 at June 30, 2005 to \$157,743 at June 30, 2006, representing an increase of 1.70%. The School Accounts Fund net assets increased from \$5,357 to \$5,996, representing an increase of 11.93%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$468,387 more than budgeted revenues, a variance of 4.62%. The most significant variance resulted from the District receiving more in local source revenues than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional function due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$8,348,935, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$403,926.

The original cost of the District's capital assets was \$15,888,907. Governmental funds account for \$15,687,510 with the remainder of \$201,397 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2005 compared to \$139,542 at June 30, 2006. This increase is due to construction that is taking place on District grounds to build the new athletic complex.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Change |
|--------------------------|----------------------------|-----------|-----------------------------|--------|--------------------------|-----------|-----------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-06 |
| Land | \$ 149,802 | 152,330 | 0 | 0 | 149,802 | 152,330 | -1.66% |
| Construction in progress | 139,542 | 0 | 0 | 0 | 139,542 | 0 | 100.00% |
| Buildings | 6,760,508 | 6,925,581 | 0 | 0 | 6,760,508 | 6,925,581 | -2.38% |
| Land improvements | 891,032 | 949,710 | 0 | 0 | 891,032 | 949,710 | -6.18% |
| Machinery and equipment | 322,657 | 307,479 | 85,394 | 99,403 | 408,051 | 406,882 | 0.29% |
| Total | \$ 8,263,541 | 8,335,100 | 85,394 | 99,403 | 8,348,935 | 8,434,503 | -1.01% |

Long-Term Debt

At June 30, 2006, the District had \$11,308,060 in general obligation and other long-term debt outstanding. This represents a increase of 77.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$11,265,000 at June 30, 2006. This significant increase is due to the crossover refunding bond indebtedness the District is going through to refinance the existing bonds payable.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$43,060, which is an increase of 9.8% from the prior year.

Figure A-7
Outstanding Long-Term Obligations

| | Total School District | | Total |
|--------------------------|-----------------------|------------------|--------------|
| | 2006 | 2005 | Change |
| General obligation bonds | \$ 11,265,000 | 6,260,000 | 80.0% |
| Land purchase | 0 | 64,470 | -100.0% |
| Early retirement | 43,060 | 39,233 | 9.8% |
| Total | <u>\$ 11,308,060</u> | <u>6,363,703</u> | <u>77.7%</u> |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- Low allowable growth over several years and enrollment fluctuations is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten -year period, which began in fiscal year 2005.
- The 2005-06 crossover refunding bond issue will be callable May 1, 2007. The cost savings of this issue will greatly benefit the District over the years to come.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Connie Reyner, District Comptroller, Monticello Community School District, 711 South Maple Street, Monticello, Iowa, 52310.

BASIC FINANCIAL STATEMENTS

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|-------------------|
| ASSETS | | | |
| Cash and pooled investments: | | | |
| U.S. Treasury securities | | | |
| on deposit with escrow agent | \$ 5,356,418 | 0 | 5,356,418 |
| Other | 2,852,659 | 78,125 | 2,930,784 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 49,179 | 0 | 49,179 |
| Succeeding year | 3,425,097 | 0 | 3,425,097 |
| Income surtax | 135,706 | 0 | 135,706 |
| Accounts | 25,514 | 661 | 26,175 |
| Due from other governments | 279,167 | 0 | 279,167 |
| Inventories | 33,715 | 3,949 | 37,664 |
| Capital assets, net of accumulated depreciation (Note 4) | 8,263,541 | 85,394 | 8,348,935 |
| TOTAL ASSETS | 20,420,996 | 168,129 | 20,589,125 |
| LIABILITIES | | | |
| Accounts payable | 123,544 | 0 | 123,544 |
| Interest payable | 82,447 | 0 | 82,447 |
| Salaries and benefits payable | 106,928 | 0 | 106,928 |
| Deferred revenue: | | | |
| Succeeding year property tax | 3,425,097 | 0 | 3,425,097 |
| Other | 6,578 | 4,390 | 10,968 |
| Long-term liabilities (Note 5): | | | |
| Portion due within one year: | | | |
| General obligation bonds | 5,825,000 | 0 | 5,825,000 |
| Early retirement | 21,530 | 0 | 21,530 |
| Portion due after one year: | | | |
| General obligation bonds | 5,440,000 | 0 | 5,440,000 |
| Early retirement | 21,530 | 0 | 21,530 |
| TOTAL LIABILITIES | 15,052,654 | 4,390 | 15,057,044 |
| NET ASSETS | | | |
| Investment in capital assets, net of related debt | 3,061,764 | 85,394 | 3,147,158 |
| Restricted for: | | | |
| Teacher mentoring | 546 | 0 | 546 |
| Early intervention | 14,589 | 0 | 14,589 |
| Salary improvement program | 675 | 0 | 675 |
| Management levy | 366,576 | 0 | 366,576 |
| Physical plant & equipment levy | 76,321 | 0 | 76,321 |
| Other special revenue purposes | 85,300 | 0 | 85,300 |
| Unrestricted | 1,762,571 | 78,345 | 1,840,916 |
| TOTAL NET ASSETS | \$ 5,368,342 | 163,739 | 5,532,081 |

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | Total |
|--|---------------------|----------------------------|--|--|---------------------------------|--------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Govern- mental Activities | Business- Type Activities | |
| Functions/Programs | | | | | | |
| Governmental activities: | | | | | | |
| Instruction: | | | | | | |
| Regular instruction | \$ 3,256,283 | 407,644 | 653,990 | (2,194,649) | 0 | (2,194,649) |
| Special instruction | 1,204,324 | 242,858 | 55,840 | (905,626) | 0 | (905,626) |
| Other instruction | 880,646 | 232,949 | 32,931 | (614,766) | 0 | (614,766) |
| | <u>5,341,253</u> | <u>883,451</u> | <u>742,761</u> | <u>(3,715,041)</u> | <u>0</u> | <u>(3,715,041)</u> |
| Support services: | | | | | | |
| Student services | 305,693 | 0 | 0 | (305,693) | 0 | (305,693) |
| Instructional staff services | 312,885 | 0 | 0 | (312,885) | 0 | (312,885) |
| Administration services | 809,653 | 0 | 0 | (809,653) | 0 | (809,653) |
| Operation and maintenance of plant services | 831,965 | 0 | 0 | (831,965) | 0 | (831,965) |
| Transportation services | 402,637 | 2,503 | 49,795 | (350,339) | 0 | (350,339) |
| | <u>2,662,833</u> | <u>2,503</u> | <u>49,795</u> | <u>(2,610,535)</u> | <u>0</u> | <u>(2,610,535)</u> |
| Other expenditures: | | | | | | |
| Facilities acquisitions | 57,718 | 0 | 0 | (57,718) | 0 | (57,718) |
| Long-term debt interest | 477,436 | 0 | 0 | (477,436) | 0 | (477,436) |
| AEA flowthrough | 303,507 | 0 | 303,507 | 0 | 0 | 0 |
| Depreciation(unallocated)* | 257,533 | 0 | 0 | (257,533) | 0 | (257,533) |
| | <u>1,096,194</u> | <u>0</u> | <u>303,507</u> | <u>(792,687)</u> | <u>0</u> | <u>(792,687)</u> |
| Total governmental activities | 9,100,280 | 885,954 | 1,096,063 | (7,118,263) | 0 | (7,118,263) |
| Business-Type activities: | | | | | | |
| Non-instructional programs: | | | | | | |
| Nutrition services | 418,848 | 268,817 | 148,767 | 0 | (1,264) | (1,264) |
| School accounts | 69 | 708 | 0 | 0 | 639 | 639 |
| Total business-type activities | <u>418,917</u> | <u>269,525</u> | <u>148,767</u> | <u>0</u> | <u>(625)</u> | <u>(625)</u> |
| Total | <u>\$ 9,519,197</u> | <u>1,155,479</u> | <u>1,244,830</u> | <u>(7,118,263)</u> | <u>(625)</u> | <u>(7,118,888)</u> |
| General Revenues: | | | | | | |
| Property tax levied for: | | | | | | |
| General purposes | | | | \$ 3,066,343 | 0 | 3,066,343 |
| Debt services | | | | 475,582 | 0 | 475,582 |
| Capital outlay | | | | 269,276 | 0 | 269,276 |
| Local option sales and service tax | | | | 508,806 | 0 | 508,806 |
| Unrestricted state grants | | | | 3,584,716 | 0 | 3,584,716 |
| Unrestricted investment earnings | | | | 151,835 | 3,898 | 155,733 |
| Gain on sale of equipment | | | | 3,571 | 0 | 3,571 |
| Other | | | | 162,661 | 0 | 162,661 |
| Total general revenues | | | | <u>8,222,790</u> | <u>3,898</u> | <u>8,226,688</u> |
| Change in net assets | | | | 1,104,527 | 3,273 | 1,107,800 |
| Net assets beginning of year | | | | <u>4,263,815</u> | <u>160,466</u> | <u>4,424,281</u> |
| Net assets end of year | | | | <u>\$ 5,368,342</u> | <u>163,739</u> | <u>5,532,081</u> |

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

| | General | Debt Service | Other Governmental Funds | Total |
|--|---------------------|------------------|--------------------------------|-------------------|
| ASSETS | | | | |
| Cash and pooled investments: | | | | |
| U.S. Treasury Securities | | | | |
| on deposit with escrow agent | \$ 0 | 5,356,418 | 0 | 5,356,418 |
| Other | 1,621,046 | 76,668 | 1,154,945 | 2,852,659 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 35,389 | 6,180 | 7,610 | 49,179 |
| Succeeding year | 2,749,237 | 317,421 | 358,439 | 3,425,097 |
| Income surtax | 135,706 | 0 | 0 | 135,706 |
| Accounts | 22,266 | 0 | 3,248 | 25,514 |
| Due from other governments | 159,576 | 30 | 119,561 | 279,167 |
| Inventories | 33,715 | 0 | 0 | 33,715 |
| TOTAL ASSETS | \$ 4,756,935 | 5,756,717 | 1,643,803 | 12,157,455 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 110,022 | 0 | 13,522 | 123,544 |
| Salaries and benefits payable | 106,928 | 0 | 0 | 106,928 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 2,749,237 | 317,421 | 358,439 | 3,425,097 |
| Income surtax | 135,706 | 0 | 0 | 135,706 |
| Other | 6,578 | 0 | 0 | 6,578 |
| Total liabilities | 3,108,471 | 317,421 | 371,961 | 3,797,853 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Debt service | 0 | 5,439,296 | 0 | 5,439,296 |
| Teacher mentoring | 546 | 0 | 0 | 546 |
| Early intervention | 14,589 | 0 | 0 | 14,589 |
| Salary improvement program | 675 | 0 | 0 | 675 |
| Unreserved: | | | | |
| General | 1,632,654 | 0 | 0 | 1,632,654 |
| Management levy | 0 | 0 | 409,636 | 409,636 |
| Capital projects | 0 | 0 | 706,374 | 706,374 |
| Physical plant and equipment levy | 0 | 0 | 76,321 | 76,321 |
| Other special revenue | 0 | 0 | 79,511 | 79,511 |
| Total fund balances | 1,648,464 | 5,439,296 | 1,271,842 | 8,359,602 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 4,756,935 | 5,756,717 | 1,643,803 | 12,157,455 |

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

| | |
|---|----------------------------|
| Total fund balances of governmental funds (page 15) | \$ 8,359,602 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 8,263,541 |
| Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. | (82,447) |
| Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. | 135,706 |
| Long-term liabilities, including bonds payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | <u>(11,308,060)</u> |
| Net assets of governmental activities (page 13) | <u><u>\$ 5,368,342</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

| | General | Debt Service | Other Governmental Funds | Total |
|---|--------------|-----------------|--------------------------------|------------|
| REVENUES: | | | | |
| Local sources: | | | | |
| Local tax | \$ 2,755,807 | 475,582 | 1,078,642 | 4,310,031 |
| Tuition | 586,557 | 0 | 0 | 586,557 |
| Other | 227,516 | 97,920 | 327,811 | 653,247 |
| State sources | 4,256,693 | 333 | 394 | 4,257,420 |
| Federal sources | 384,005 | 0 | 0 | 384,005 |
| Total revenues | 8,210,578 | 573,835 | 1,406,847 | 10,191,260 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 3,169,454 | 0 | 39,670 | 3,209,124 |
| Special instruction | 1,204,034 | 0 | 0 | 1,204,034 |
| Other instruction | 617,546 | 0 | 278,023 | 895,569 |
| | 4,991,034 | 0 | 317,693 | 5,308,727 |
| Support services: | | | | |
| Student services | 309,830 | 0 | 0 | 309,830 |
| Instructional staff services | 253,850 | 0 | 78,352 | 332,202 |
| Administration services | 743,725 | 0 | 10,711 | 754,436 |
| Operation and maintenance of plant services | 709,793 | 0 | 120,342 | 830,135 |
| Transportation services | 355,179 | 0 | 70,528 | 425,707 |
| | 2,372,377 | 0 | 279,933 | 2,652,310 |
| Other expenditures: | | | | |
| Facilities acquisitions | 0 | 0 | 228,514 | 228,514 |
| Long-term debt: | | | | |
| Principal | 0 | 499,470 | 0 | 499,470 |
| Interest and fiscal charges | 0 | 449,128 | 0 | 449,128 |
| AEA flowthrough | 303,507 | 0 | 0 | 303,507 |
| | 303,507 | 948,598 | 228,514 | 1,480,619 |
| Total expenditures | 7,666,918 | 948,598 | 826,140 | 9,441,656 |
| Excess(deficiency) of revenues over(under) expenditures | 543,660 | (374,763) | 580,707 | 749,604 |
| Other financing sources(uses): | | | | |
| Transfer in | 0 | 347,942 | 0 | 347,942 |
| Transfer out | 0 | 0 | (347,942) | (347,942) |
| Sale of bonds | 0 | 5,440,000 | 0 | 5,440,000 |
| Discount on bonds | 0 | (54,400) | 0 | (54,400) |
| Sale of materials | 3,571 | 0 | 0 | 3,571 |
| Total other financing sources(uses) | 3,571 | 5,733,542 | (347,942) | 5,389,171 |
| Net change in fund balances | 547,231 | 5,358,779 | 232,765 | 6,138,775 |
| Fund balance beginning of year | 1,101,233 | 80,517 | 1,039,077 | 2,220,827 |
| Fund balance end of year | \$ 1,648,464 | 5,439,296 | 1,271,842 | 8,359,602 |

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 6,138,775

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures and depreciation expense for the current year, are as follows:

| | | |
|----------------------|------------|----------|
| Capital expenditures | \$ 317,190 | |
| Depreciation expense | (388,749) | (71,559) |

Repayment of issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

| | | |
|--------|----------------|-------------|
| Issued | \$ (5,440,000) | |
| Repaid | 499,470 | (4,940,530) |

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(28,308)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

9,976

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

| | | |
|------------------|--|---------|
| Early retirement | | (3,827) |
|------------------|--|---------|

Changes in net assets of governmental activities (page 14)

\$ 1,104,527

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

| | School Nutrition | School Accounts | Total |
|---|---------------------|--------------------|---------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 72,129 | 5,996 | 78,125 |
| Accounts receivable | 661 | 0 | 661 |
| Inventories | 3,949 | 0 | 3,949 |
| Capital assets, net of accumulated depreciation (Note 4) | 85,394 | 0 | 85,394 |
| TOTAL ASSETS | 162,133 | 5,996 | 168,129 |
| LIABILITIES | | | |
| Deferred revenue | 4,390 | 0 | 4,390 |
| NET ASSETS | | | |
| Investment in capital assets | 85,394 | 0 | 85,394 |
| Unrestricted | 72,349 | 5,996 | 78,345 |
| TOTAL NET ASSETS | \$ 157,743 | 5,996 | 163,739 |

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

| | School Nutrition | School Accounts | Total |
|---------------------------------|---------------------|--------------------|-----------|
| OPERATING REVENUE: | | | |
| Local sources: | | | |
| Other local sources: | | | |
| Sale of lunches and breakfasts: | | | |
| Students | \$ 253,937 | 0 | 253,937 |
| Adults | 13,563 | 0 | 13,563 |
| Miscellaneous | 1,317 | 708 | 2,025 |
| TOTAL OPERATING REVENUES | 268,817 | 708 | 269,525 |
| OPERATING EXPENSES: | | | |
| Non-instructional programs: | | | |
| Salaries | 146,682 | 0 | 146,682 |
| Benefits | 33,208 | 0 | 33,208 |
| Services | 9,299 | 0 | 9,299 |
| Supplies | 214,482 | 69 | 214,551 |
| Depreciation | 15,177 | 0 | 15,177 |
| TOTAL OPERATING EXPENSES | 418,848 | 69 | 418,917 |
| OPERATING INCOME (LOSS) | (150,031) | 639 | (149,392) |
| NON-OPERATING REVENUES: | | | |
| Interest | 3,898 | 0 | 3,898 |
| State sources | 5,586 | 0 | 5,586 |
| Federal sources | 143,181 | 0 | 143,181 |
| TOTAL NON-OPERATING REVENUES | 152,665 | 0 | 152,665 |
| Change in net assets | 2,634 | 639 | 3,273 |
| Net assets at beginning of year | 155,109 | 5,357 | 160,466 |
| Net assets end of year | \$ 157,743 | 5,996 | 163,739 |

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

| | School Nutrition | School Accounts | Total |
|--|---------------------|--------------------|-----------|
| Cash flows from operating activities: | | | |
| Cash received from sale of lunches and breakfasts | \$ 265,754 | 0 | 265,754 |
| Cash received from miscellaneous operating activities | 1,317 | 708 | 2,025 |
| Cash payments to employees for services | (185,258) | 0 | (185,258) |
| Cash payments to suppliers for goods or services | (210,232) | (69) | (210,301) |
| Net cash provided by(used in) operating activities | (128,419) | 639 | (127,780) |
| Cash flows from non-capital financing activities: | | | |
| State grants received | 5,586 | 0 | 5,586 |
| Federal grants received | 128,253 | 0 | 128,253 |
| Net cash provided by non-capital financing activities | 133,839 | 0 | 133,839 |
| Cash flows from investing activities: | | | |
| Interest on investments | 3,898 | 0 | 3,898 |
| Cash flows from capital financing activities: | | | |
| Purchase of assets | (1,168) | 0 | (1,168) |
| Net increase in cash and cash equivalents | 8,150 | 639 | 8,789 |
| Cash and cash equivalents at beginning of year | 63,979 | 5,357 | 69,336 |
| Cash and cash equivalents at end of year | \$ 72,129 | 5,996 | 78,125 |
| Reconciliation of operating income(loss) to net cash provided by(used in) operating activities: | | | |
| Operating income(loss) | \$ (150,031) | 639 | (149,392) |
| Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities: | | | |
| Commodities consumed | 14,928 | 0 | 14,928 |
| Depreciation | 15,177 | 0 | 15,177 |
| Increase in inventories | (811) | 0 | (811) |
| Increase in accounts receivables | (599) | 0 | (599) |
| Decrease in accounts payable | (568) | 0 | (568) |
| Decrease in salaries and benefits payable | (5,368) | 0 | (5,368) |
| Decrease in deferred revenue | (1,147) | 0 | (1,147) |
| Net cash provided by(used in) operating activities | \$ (128,419) | 639 | 21,612 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET: | | | |
| Current assets: | | | |
| Cash and pooled investments | \$ 72,129 | 5,996 | 78,125 |

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$14,928.

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2006

| | <u>Agency</u> |
|-----------------------------|-----------------|
| ASSETS | |
| Cash and pooled investments | \$ 4,869 |
| Accounts receivable | <u>1,481</u> |
| TOTAL ASSETS | <u>6,350</u> |
| LIABILITIES | |
| Accounts payable | 92 |
| Due to other groups | <u>6,258</u> |
| TOTAL LIABILITIES | <u>\$ 6,350</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Monticello Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Monticello, Iowa, and the predominate agricultural territory in Linn, Jones, Delaware and Dubuque Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Monticello Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Monticello Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Linn, Jones, Delaware and Dubuque County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following major proprietary funds:

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|---------------------------------|--------|
| Land | \$ 500 |
| Buildings | 500 |
| Land improvements | 500 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 500 |

Capital assets are depreciated using the straight line method over the following estimated useful lives:

| Asset Class | Estimated Useful Lives (In Years) |
|-------------------------|---|
| Buildings | 50 years |
| Land improvements | 20 years |
| Machinery and equipment | 5-12 years |

Salaries and benefits payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in the non-instructional function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

| | Amortized Cost |
|-----------------------|----------------|
| Diversified portfolio | \$ 548 |

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities are classified as Category 1, which

means the investments are registered and the securities are held by a fiscal agent in the District's name.

Securities are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At June 30, 2006, the District had investments in U.S. Treasury Securities as follows:

| | Fair Value |
|--------------------------|--------------|
| U.S. Treasury Securities | \$ 5,356,418 |

(3) Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

| Transfer to | Transfer from | Amount |
|--------------|--|------------|
| Debt Service | Capital Projects | \$ 286,000 |
| Debt Service | Special Revenue, Physical Plant and Equipment Levy | 61,942 |
| Total | | \$ 347,942 |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| Business-type activities: | | | | |
| Machinery and equipment | \$ 200,229 | 1,168 | 0 | 201,397 |
| Less accumulated depreciation | 100,826 | 15,177 | 0 | 116,003 |
| Business-type activities capital assets, net | \$ 99,403 | (14,009) | 0 | 85,394 |

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|---------------------------------|-----------|-----------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 152,330 | 0 | 2,528 | 149,802 |
| Construction in progress | 0 | 139,542 | 0 | 139,542 |
| Total capital assets not being depreciated | 152,330 | 139,542 | 2,528 | 289,344 |
| Capital assets being depreciated: | | | | |
| Buildings | 9,448,500 | 13,160 | 0 | 9,461,660 |
| Land improvements | 2,125,203 | 20,622 | 0 | 2,145,825 |
| Machinery and equipment | 3,644,287 | 146,394 | 0 | 3,790,681 |
| Total capital assets being depreciated | 15,217,990 | 180,176 | 0 | 15,398,166 |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,522,919 | 178,233 | 0 | 2,701,152 |
| Land improvements | 1,175,493 | 79,300 | 0 | 1,254,793 |
| Machinery and equipment | 3,336,808 | 131,216 | 0 | 3,468,024 |
| Total accumulated depreciation | 7,035,220 | 388,749 | 0 | 7,423,969 |
| Total capital assets being depreciated, net | 8,182,770 | (208,573) | 0 | 7,974,197 |
| Governmental activities capital assets, net | \$ 8,335,100 | (69,031) | 2,528 | 8,263,541 |

Depreciation expense was charged by the District as follows:

| | |
|--|------------|
| Governmental activities: | |
| Instruction: | |
| Regular | \$ 27,942 |
| Special | 290 |
| Other | 3,524 |
| Support services: | |
| Student services | 834 |
| Instructional staff services | 5,632 |
| Administration services | 3,217 |
| Operation and maintenance of plant services | 1,830 |
| Transportation | 87,947 |
| | 131,216 |
| Unallocated depreciation | 257,533 |
| Total governmental activities depreciation expense | \$ 388,749 |
| Business-type activities: | |
| Food services | \$ 15,177 |

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|--------------------------|---------------------------------|-----------|-----------|---------------------------|---------------------------|
| General obligation bonds | \$ 6,260,000 | 5,440,000 | 435,000 | 11,265,000 | 5,825,000 |
| Land purchase | 64,470 | 0 | 64,470 | 0 | 0 |
| Early retirement | 39,233 | 43,060 | 39,233 | 43,060 | 21,530 |
| Total | \$ 6,363,703 | 5,483,060 | 538,703 | 11,308,060 | 5,846,530 |

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is the amount of unused sick leave time the employees per diem contract rate for teaching only. The maximum benefits for full-time staff is \$15,000. Early retirement benefits paid during the year ended June 30, 2006, totaled \$43,060.

General Obligation Bonds Payable

Details of the District's June 30, 2006 General Obligation bonds indebtedness is as follows:

| Year Ending June 30, | Interest Rate | Bond issue December 16, 1996 | | |
|----------------------------|------------------|------------------------------|----------|-----------|
| | | Principal | Interest | Total |
| 2007 | 4.800 % | \$ 230,000 | 152,063 | 382,063 |
| 2008 | 4.900 | 240,000 | 141,023 | 381,023 |
| 2009 | 4.900 | 255,000 | 129,262 | 384,262 |
| 2010 | 5.000 | 270,000 | 116,768 | 386,768 |
| 2011 | 5.100 | 285,000 | 103,267 | 388,267 |
| 2012 | 5.200 | 300,000 | 88,733 | 388,733 |
| 2013 | 5.300 | 315,000 | 73,132 | 388,132 |
| 2014 | 5.375 | 330,000 | 56,438 | 386,438 |
| 2015 | 5.375 | 350,000 | 38,700 | 388,700 |
| 2016 | 5.375 | 370,000 | 19,888 | 389,888 |
| Subtotal | | \$ 2,945,000 | 919,274 | 3,864,274 |

| Year Ending June 30, | Interest Rate | Bond issue March 25, 1997 | | |
|----------------------------|------------------|---------------------------|-----------|-----------|
| | | Principal | Interest | Total |
| 2007 | 5.000 % | \$ 235,000 | 151,448 | 386,448 |
| 2008 | 5.000 | 245,000 | 139,698 | 384,698 |
| 2009 | 5.000 | 255,000 | 127,448 | 382,448 |
| 2010 | 5.150 | 265,000 | 114,698 | 379,698 |
| 2011 | 5.200 | 275,000 | 101,049 | 376,049 |
| 2012 | 5.300 | 290,000 | 86,749 | 376,749 |
| 2013 | 5.350 | 305,000 | 71,379 | 376,379 |
| 2014 | 5.400 | 320,000 | 55,062 | 375,062 |
| 2015 | 5.450 | 335,000 | 37,782 | 372,782 |
| 2016 | 5.400 | 355,000 | 19,525 | 374,525 |
| Subtotal | | \$ 2,880,000 | 904,838 | 3,784,838 |
| Total | | \$ 5,825,000 | 1,824,112 | 7,649,112 |

General Obligation Refunding Bonds

On November 1, 2005, the District issued \$5,440,000 of general obligation refunding bonds, with interest rates ranging from 3.1% to 3.8%, for a crossover refunding of a portion of the general obligation bonds issued December 16, 1996 and March 25, 1997. The District entered in to an escrow agreement whereby the proceeds from general obligation refunding bonds were converted

into U.S. Treasury Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$5,360,000 principal on the refunded general obligation bonds when they become callable on May 1, 2007 and the interest from November 1, 2005 to and including May 1, 2007 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished.

The District refunded the bonds to reduce its total debt service payments by approximately \$410,490 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$330,771. Annual debt service requirements to maturity of the general obligation refunding bonds are as follows:

| Year Ending June 30, | Interest Rate | Bond issue November 1, 2005 | | |
|----------------------------|------------------|-----------------------------|-----------|-----------|
| | | Principal | Interest | Total |
| 2007 | 3.100 | % \$ 0 | 191,173 | 191,173 |
| 2008 | 3.100 | 530,000 | 191,173 | 721,173 |
| 2009 | 3.200 | 545,000 | 174,743 | 719,743 |
| 2010 | 3.300 | 565,000 | 157,303 | 722,303 |
| 2011 | 3.450 | 580,000 | 138,658 | 718,658 |
| 2012 | 3.550 | 600,000 | 118,648 | 718,648 |
| 2013 | 3.600 | 620,000 | 97,348 | 717,348 |
| 2014 | 3.700 | 640,000 | 75,028 | 715,028 |
| 2015 | 3.750 | 665,000 | 51,348 | 716,348 |
| 2016 | 3.800 | 695,000 | 26,410 | 721,410 |
| Total | | \$ 5,440,000 | 1,221,832 | 6,661,832 |

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll for the years ended June 30, 2006, 2005, 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$286,332, \$259,577, and \$254,663, respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: health and long-term disability. District contributions to ISEBA for the year ended June 30, 2006 were \$885,769.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$303,507 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Construction Commitment

The District and the District's athletic foundation are working together to construct an athletic complex on District grounds. As of June 30, 2006, the District had entered into a contract totaling \$87,519 for lighting on the baseball portion of the complex. As of June 30, 2006, the District had incurred costs of \$9,769 against the contract. As of June 30, 2006, the athletic foundation had incurred costs of \$133,719 for construction of the complex. The balance of \$77,750 remaining on the District's contract as well as the remaining costs to be incurred by the athletic foundation will be paid as work progresses. Once construction is complete, the total cost of the project will be added to the District's fixed asset listing.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, disbursements in the non-instructional function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

MONTICELLO COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

| | Governmental Fund Types Actual | Proprietary Fund Type Actual | Total Actual | Budgeted Amounts | | Final to Actual Variance |
|---|--------------------------------------|------------------------------------|-----------------|------------------|------------|--------------------------------|
| | | | | Original | Final | |
| Revenues: | | | | | | |
| Local sources | \$ 5,549,835 | 273,423 | 5,823,258 | 5,444,309 | 5,444,309 | 378,949 |
| Intermediate sources | 0 | 0 | 0 | 10,000 | 10,000 | (10,000) |
| State sources | 4,257,420 | 5,586 | 4,263,006 | 4,225,754 | 4,225,754 | 37,252 |
| Federal sources | 384,005 | 143,181 | 527,186 | 465,000 | 465,000 | 62,186 |
| Total revenues | 10,191,260 | 422,190 | 10,613,450 | 10,145,063 | 10,145,063 | 468,387 |
| Expenditures | | | | | | |
| Instruction | 5,308,727 | 0 | 5,308,727 | 5,688,000 | 5,688,000 | 379,273 |
| Support services | 2,652,310 | 0 | 2,652,310 | 3,249,000 | 3,249,000 | 596,690 |
| Non-instructional programs | 0 | 418,917 | 418,917 | 401,500 | 401,500 | (17,417) |
| Other expenditures | 1,480,619 | 0 | 1,480,619 | 1,514,701 | 1,514,701 | 34,082 |
| Total expenditures | 9,441,656 | 418,917 | 9,860,573 | 10,853,201 | 10,853,201 | 992,628 |
| Excess(deficiency) of revenues over(under) expenditures | 749,604 | 3,273 | 752,877 | (708,138) | (708,138) | 1,461,015 |
| Other financing sources, net | 5,389,171 | 0 | 5,389,171 | 0 | 0 | 5,389,171 |
| Excess(deficiency) of revenues and other financing sources over(under) expenditures | 6,138,775 | 3,273 | 6,142,048 | (708,138) | (708,138) | 6,850,186 |
| Balance beginning of year | 2,220,827 | 160,466 | 2,381,293 | 2,480,492 | 2,480,492 | (99,199) |
| Balance end of year | \$ 8,359,602 | 163,739 | 8,523,341 | 1,772,354 | 1,772,354 | 6,750,987 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the non-instructional function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

MONTICELLO COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

| | Special Revenue | | | | | | |
|--|--|-------------------------|---------------------|---------------------|------------------------------|---------------------|--|
| | Physical Plant and Equipment Levy | Manage- ment Levy | Student Activity | Expendable Trust | Special Revenue- Total | Capital Projects | Total Nonmajor Governmental Funds |
| ASSETS | | | | | | | |
| Cash and pooled investments | \$ 77,645 | 407,215 | 69,993 | 13,279 | 568,132 | 586,813 | 1,154,945 |
| Receivables: | | | | | | | |
| Property tax: | | | | | | | |
| Current year delinquent | 3,517 | 4,093 | 0 | 0 | 7,610 | 0 | 7,610 |
| Succeeding year | 278,439 | 80,000 | 0 | 0 | 358,439 | 0 | 358,439 |
| Accounts | 0 | 0 | 3,248 | 0 | 3,248 | 0 | 3,248 |
| Due from other governments | 0 | 0 | 0 | 0 | 0 | 119,561 | 119,561 |
| TOTAL ASSETS | \$ 359,601 | 491,308 | 73,241 | 13,279 | 934,181 | 706,374 | 1,643,803 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 4,841 | 1,672 | 7,009 | 0 | 13,522 | 0 | 13,522 |
| Deferred revenue: | | | | | | | |
| Succeeding year property tax | 278,439 | 80,000 | 0 | 0 | 358,439 | 0 | 358,439 |
| Total liabilities | 283,280 | 81,672 | 7,009 | 0 | 371,961 | 0 | 371,961 |
| Unreserved fund balances | 76,321 | 409,636 | 66,232 | 13,279 | 565,468 | 706,374 | 1,271,842 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 359,601 | 491,308 | 73,241 | 13,279 | 937,429 | 706,374 | 1,643,803 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

| | Special Revenue Funds | | | | | | |
|---|--|-------------------------|---------------------|---------------------|------------------------------|---------------------|--|
| | Physical Plant and Equipment Levy | Manage- ment Levy | Student Activity | Expendable Trust | Special Revenue- Total | Capital Projects | Total Nonmajor Governmental Funds |
| REVENUES: | | | | | | | |
| Local sources: | | | | | | | |
| Local tax | \$ 269,276 | 300,560 | 0 | 0 | 569,836 | 508,806 | 1,078,642 |
| Other | 27,783 | 12,009 | 270,648 | 4,811 | 315,251 | 12,560 | 327,811 |
| State sources | 189 | 205 | 0 | 0 | 394 | 0 | 394 |
| TOTAL REVENUES | 297,248 | 312,774 | 270,648 | 4,811 | 885,481 | 521,366 | 1,406,847 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| Instruction: | | | | | | | |
| Regular instruction | 0 | 36,445 | 0 | 3,225 | 39,670 | 0 | 39,670 |
| Other instruction | 0 | 0 | 278,023 | 0 | 278,023 | 0 | 278,023 |
| Support services: | | | | | | | |
| Instructional staff services | 78,352 | 0 | 0 | 0 | 78,352 | 0 | 78,352 |
| Administration services | 0 | 10,711 | 0 | 0 | 10,711 | 0 | 10,711 |
| Operation and maintenance of plant services | 0 | 120,342 | 0 | 0 | 120,342 | 0 | 120,342 |
| Transportation services | 70,528 | 0 | 0 | 0 | 70,528 | 0 | 70,528 |
| Other expenditures: | | | | | | | |
| Facility acquisitions | 228,514 | 0 | 0 | 0 | 228,514 | 0 | 228,514 |
| TOTAL EXPENDITURES | 377,394 | 167,498 | 278,023 | 3,225 | 826,140 | 0 | 826,140 |
| Excess(deficiency) of revenues over (under) expenditures | (80,146) | 145,276 | (7,375) | 1,586 | 59,341 | 521,366 | 580,707 |
| Other financing uses: | | | | | | | |
| Transfers out | (61,942) | 0 | 0 | 0 | (61,942) | (286,000) | (347,942) |
| Excess(deficiency) of revenues and other financing uses over(under) expenditures | (142,088) | 145,276 | (7,375) | 1,586 | (2,601) | 235,366 | 232,765 |
| Fund balance beginning of year | 218,409 | 264,360 | 73,607 | 11,693 | 568,069 | 471,008 | 1,039,077 |
| Fund balance end of year | \$ 76,321 | 409,636 | 66,232 | 13,279 | 565,468 | 706,374 | 1,271,842 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|-------------------------|---------------------------------|----------|-------------------|---------------------------|
| Interest | \$ 3,151 | 28 | 55 | 3,124 |
| Elementary-all | 8,253 | 10,792 | 8,680 | 10,365 |
| Elementary-PE | 242 | 0 | 0 | 242 |
| Music | 4 | 0 | 0 | 4 |
| Student council | 10 | 0 | 0 | 10 |
| Vocal-Carpenter | 1,656 | 536 | 0 | 2,192 |
| JH instrumental | 1,965 | 0 | 599 | 1,366 |
| Student organization | 5,355 | 1,656 | 0 | 7,011 |
| Co-ed athletics | (2,358) | 2,358 | 0 | 0 |
| Yearbook-JH | 282 | 0 | 0 | 282 |
| HS vocal | 7,178 | 4,540 | 5,558 | 6,160 |
| HS instrumental | 682 | 1,926 | 2,162 | 446 |
| HS student organization | 10,982 | 15,055 | 15,750 | 10,287 |
| HS co-ed athletics | 68,116 | 1,095 | 88,202 | (18,991) |
| Cross country | (2,651) | 3,660 | 1,009 | 0 |
| Boys basketball-JH | (11,577) | 11,577 | 0 | 0 |
| Football-JH | (19,534) | 19,534 | 0 | 0 |
| Baseball-JH | (6,700) | 8,292 | 2,607 | (1,015) |
| Boys track-JH | (5,434) | 6,914 | 1,480 | 0 |
| Soccer-JH | (8,831) | 12,284 | 3,706 | (253) |
| Boys golf-JH | (1,308) | 1,308 | 0 | 0 |
| Wrestling-JH | (4,074) | 4,074 | 0 | 0 |
| Girls basketball-JH | (4,827) | 5,948 | 1,121 | 0 |
| Volleyball-JH | (6,170) | 6,170 | 0 | 0 |
| Softball-JH | (3,135) | 3,559 | 1,824 | (1,400) |
| Softball concessions | 1,843 | 66 | 1,449 | 460 |
| Girls track | (3,970) | 3,970 | 0 | 0 |
| Girls golf | (1,807) | 1,807 | 0 | 0 |
| Paw prints | 340 | 0 | 0 | 340 |
| Model UN | 104 | 2 | 0 | 106 |
| Cheerleader | 7,816 | 17,737 | 17,905 | 7,648 |
| Dance team | (328) | 8,276 | 6,340 | 1,608 |
| Speech and drama | 3,963 | 3,504 | 0 | 7,467 |
| HS music | 2,948 | 142 | 41 | 3,049 |
| Boys basketball-HS | (33) | 0 | 0 | (33) |
| Football-HS | 55 | 1,693 | 514 | 1,234 |
| Baseball-HS | 724 | 33 | 0 | 757 |
| Girls basketball-HS | 46 | 6,165 | 6,129 | 82 |
| Volleyball-HS | 1,588 | 2,917 | 2,637 | 1,868 |
| Girls golf-HS | (147) | 20 | 0 | (127) |
| Student council-HS | 2,035 | 3,242 | 4,230 | 1,047 |
| Yearbook-HS | (13,017) | 13,034 | 11,687 | (11,670) |
| Job olympics | 11 | 0 | 0 | 11 |

MONTICELLO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|--------------------|---------------------------------|----------------|-------------------|---------------------------|
| Montisports.org | 510 | 0 | 0 | 510 |
| Sixth grade | 2,122 | 1,379 | 1,088 | 2,413 |
| 7th grade | 4,968 | 12,600 | 15,243 | 2,325 |
| 8th grade | 2,618 | 6,132 | 5,995 | 2,755 |
| Freshman | 1,841 | 895 | 0 | 2,736 |
| Sophomore | 1,345 | 579 | 0 | 1,924 |
| Junior | 2,121 | 6,095 | 6,531 | 1,685 |
| Senior | 1,388 | 1,369 | 0 | 2,757 |
| FFA | 16,967 | 36,195 | 43,840 | 9,322 |
| FHI | 353 | 0 | 0 | 353 |
| Science club | 332 | 0 | 0 | 332 |
| BPA | 675 | 14,370 | 14,023 | 1,022 |
| M-club | 409 | 0 | 0 | 409 |
| Coffee club | 1,742 | 1,748 | 1,017 | 2,473 |
| Camera club | 1,046 | 0 | 0 | 1,046 |
| International club | 1,722 | 5,372 | 6,601 | 493 |
| Total | \$ 73,607 | 270,648 | 278,023 | 66,232 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 EXPENDABLE TRUST FUNDS
 JUNE 30, 2006

| | Farm Scholarship | Capenter Trust | Burrichter Memorial | Zubler Memorial | Total |
|-------------------------------------|---------------------|-------------------|------------------------|--------------------|--------|
| ASSETS | | | | | |
| Cash and pooled investments | \$ 500 | 9,186 | 2,467 | 1,126 | 13,279 |
| TOTAL ASSETS | \$ 500 | 9,186 | 2,467 | 1,126 | 13,279 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | \$ 0 | 0 | 0 | 0 | 0 |
| Fund balances: | | | | | |
| Unreserved, undesignated | 500 | 9,186 | 2,467 | 1,126 | 13,279 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 500 | 9,186 | 2,467 | 1,126 | 13,279 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 EXPENDABLE TRUST FUNDS
 YEAR ENDED JUNE 30, 2006

| | Farm Scholarship | Capenter Trust | Burrichter Memorial | Zubler Memorial | Total |
|--------------------------------|---------------------|-------------------|------------------------|--------------------|--------|
| REVENUES: | | | | | |
| Local sources: | | | | | |
| Interest on investments | \$ 0 | 3,768 | 43 | 0 | 3,811 |
| Donation | 500 | 0 | 0 | 500 | 1,000 |
| TOTAL REVENUES | 500 | 3,768 | 43 | 500 | 4,811 |
| EXPENDITURES: | | | | | |
| Instruction: | | | | | |
| Regular | 500 | 2,225 | 0 | 500 | 3,225 |
| NET CHANGE IN FUND BALANCE | 0 | 1,543 | 43 | 0 | 1,586 |
| FUND BALANCE BEGINNING OF YEAR | 500 | 7,643 | 2,424 | 1,126 | 11,693 |
| FUND BALANCE END OF YEAR | \$ 500 | 9,186 | 2,467 | 1,126 | 13,279 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2006

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|-----------------------------|---------------------------------|---------------|---------------|---------------------------|
| ASSETS | | | | |
| Cash and pooled investments | \$ 6,828 | 23,847 | 25,806 | 4,869 |
| Accounts receivable | 0 | 1,481 | 0 | 1,481 |
| TOTAL ASSETS | 6,828 | 25,328 | 25,806 | 6,350 |
| LIABILITIES | | | | |
| Accounts payable | 0 | 92 | 0 | 92 |
| Due to other groups | \$ 6,828 | 25,236 | 25,806 | 6,258 |
| TOTAL LIABILITIES | 6,828 | 25,328 | 25,806 | 6,350 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

| | | Modified Accrual Basis | | | |
|---|----|------------------------|-----------|-----------|-----------|
| | | Years Ended June 30, | | | |
| | | 2006 | 2005 | 2004 | 2003 |
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ | 4,310,031 | 4,372,964 | 4,134,270 | 3,992,086 |
| Tuition | | 586,557 | 448,168 | 421,871 | 308,226 |
| Other | | 653,247 | 515,437 | 453,113 | 446,443 |
| Intermediate sources | | 0 | 9,564 | 11,500 | 0 |
| State sources | | 4,257,420 | 3,916,593 | 3,871,736 | 4,103,771 |
| Federal sources | | 384,005 | 258,632 | 466,285 | 182,028 |
| Total | \$ | 10,191,260 | 9,521,358 | 9,358,775 | 9,032,554 |
| Expenditures: | | | | | |
| Instruction: | | | | | |
| Regular instruction | \$ | 3,209,124 | 2,928,810 | 2,987,594 | 3,001,967 |
| Special instruction | | 1,204,034 | 1,090,021 | 1,019,440 | 988,359 |
| Other instruction | | 895,569 | 888,058 | 755,989 | 752,198 |
| Support services: | | | | | |
| Student services | | 309,830 | 322,402 | 452,813 | 387,151 |
| Instructional staff services | | 332,202 | 240,294 | 250,711 | 257,769 |
| Administration services | | 754,436 | 797,328 | 897,437 | 906,103 |
| Operation and maintenance of plant services | | 830,135 | 777,994 | 590,786 | 637,512 |
| Transportation services | | 425,707 | 488,085 | 319,138 | 324,240 |
| Other expenditures: | | | | | |
| Facilities acquisitions | | 228,514 | 405,016 | 512,119 | 89,796 |
| Long Term Debt: | | | | | |
| Principal | | 499,470 | 410,000 | 390,000 | 370,000 |
| Interest | | 449,128 | 345,874 | 367,645 | 388,483 |
| AEA flow-through | | 303,507 | 294,542 | 299,347 | 319,677 |
| Total | \$ | 9,441,656 | 8,988,424 | 8,843,019 | 8,423,255 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Monticello Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Monticello Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 18, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Monticello Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Monticello Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Monticello Community School District and other parties to Monticello Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Monticello Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

October 18, 2006

MONTICELLO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives.

Conclusion - Response accepted.

I-B-06 Hourly Wages Payroll Procedures - We noted during our audit that the District did not maintain documentation on hours worked by sponsors or coaches for wage and hour purposes, as required by the Department of Labor.

Recommendation - The District should require documentation of hours worked for sponsors and coaches who are not exempt. The District should monitor for minimum wage as well as overtime.

Response - The District will review and make the necessary corrections to these procedures.

Conclusion - Response accepted.

I-C-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st. The District should submit the outstanding checks to the State Treasurer as unclaimed property.

Response - The District will review outstanding checks over one year old annually and submit to the State Treasurer.

Conclusion - Response accepted.

I-D-06 Student Activity Fund - During our audit concerns arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation – The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

Donations from Target were recorded in the Student Activity Fund. These donations do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General Fund for use in all instructional supplies/services.

Padlock fees and parking permit fees were being receipted into the Student Activity Fund. Revenues and expenses related to these type activities are more appropriately handled through the General Fund.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. If receipts/expenditures are deemed inappropriate for the Student Activity Fund the proper measures should be taken to receipt monies to the correct fund they can be expended from.

Response - The district will review these receipts/expenditures and make necessary transfers to the General Fund.

Conclusion - Response accepted.

I-E-06 Board Policies - We noted during our audit that the District is not current in reviewing the board policy book. The District is required to have policies in the policy book updated every five years.

Recommendation - The District needs to review the board policy book for policies that have not been reviewed within the past five years. The District may need to contact the Department of Education or IASB for guidance relating to updating the policy manual.

Response - The District will review the policy book and implement a plan to update policies more regularly.

Conclusion - Response accepted.

MONTICELLO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006 exceeded the amount budgeted in the non-instructional function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will review and monitor the expenses in the future and amend when needed.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the District and District officials are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|--|----------------------------|---------|
| Nick Sauser, Bus Driver Owns Nick's Service Center | Repairs | \$858 |
| Kathy Harms, Teacher Spouse owns Subway | Food | \$217 |
| Jenny Lambert, Teacher Spouse owns Lambert's Carpet | Carpet | \$7,468 |
| Daniel Sauser, Teacher Father-in-law owns Welter Storage | Supplies | \$755 |
| Shirley Stadtmueller, Bus Driver/Food Service Spouse owns S&S Lawn Care | Lawn services | \$1,196 |
| Sandra Hinrichs, Elementary Secretary Sister owns Family Auto Center | Supplies | \$41 |

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with Nick Sauser do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the sister, spouses, father-in-law, and brother-in-law of the District's employees do not appear to represent a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-06 Financial Condition - We noted during our audit that the District had negative account balances in the Student Activity Fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit account balances.

Response - The District has been monitoring this fund and will continue to do so.

Conclusion - Response accepted.